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CITY OF ST. LOUIS



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September 28, 2016

Carol L. Shepard, Supply Commissioner
Supply Division
1200 Market Street, Room 324
St. Louis, MO 63103-2842

RE: Procurement Process Review of the Supply Division (Project #2016-PR01)

Dear Ms. Shepard:

We have completed a procurement process review of the Supply Division for the period January 1, 2015 through December 31, 2015. A description of the scope of our work is included in the report.

Fieldwork was completed on August 4, 2016. Management's responses to the observations and recommendations noted in the report were received on September 26, 2016 and have been incorporated in the report.

This review was made under authorization contained in Article XV, Section 2 of the City of St. Louis Charter, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

If you have any questions, please contact the Internal Audit Section at (314) 657-3454.

Respectfully,

Ishmael Ikpeama, Ph.D
Internal Audit Supervisor

Enclosure

Cc: Rose M. Neyland, Deputy Commissioner





CITY OF ST. LOUIS

SUPPLY DIVISION

PROCUREMENT PROCESS REVIEW

JANUARY 1, 2015 THROUGH DECEMBER 31, 2015

PROJECT #2016-PR01

DATE ISSUED: SEPTEMBER 28, 2016

**Prepared by:
The Internal Audit Section**



OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

**CITY OF ST. LOUIS
SUPPLY DIVISION
PROCUREMENT PROCESS REVIEW
JANUARY 1, 2015 THROUGH DECEMBER 31, 2015**

TABLE OF CONTENTS

SUMMARY	1
Background	1
Purpose	1
Scope And Methodology	1
Status of Prior Observations	2
Conclusion	2
Exit Conference and Management's Responses	3
 DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES	 4-10

**CITY OF ST. LOUIS
SUPPLY DIVISION
PROCUREMENT PROCESS REVIEW
JANUARY 1, 2015 THROUGH DECEMBER 31, 2015**

SUMMARY

Background

The Office of the Supply Commissioner (Supply Division) was established under Chapter 5.56 of the Revised Code of the City of St. Louis. The procurement regulations and procedures were established under Chapter 5.58 of the Revised Code and Article XV, Sections 26-29 of the City Charter.

The Supply Division is responsible for the purchase of all supplies, equipment, equipment maintenance and selected services, excluding materials for public work and improvements, according to standards and specifications adopted or prepared by the Board of Standardization, and advertising for proposals.

The purpose of the Supply Division is to ensure a continuous supply of materials, goods, services and equipment for City departments and agencies through competitive bids and contracts. To better serve City departments, a 2012 procedures manual was developed and distributed to City departments responsible for purchasing functions.

Purpose

The purpose of this review was to determine if the Supply Division effectively and efficiently managed risks related to the procurement of all supplies, equipment, equipment maintenance and selected services for the City departments to ensure:

- The accomplishment of established goals and objectives.
- Compliance with applicable laws, regulations, policies and procedures.
- The reliability and integrity of financial and operational information.
- Economic and efficient use of resources.

Scope and Methodology

The scope of the project included the review of requisitions from the period January 1, 2015 through December 31, 2015. The review was confined to evaluating internal controls over the financial and operational activities relating to the objectives noted above. The review procedures included:

- Inquiries of management and staff.
- Observations of relevant processes.
- Reviews of compliance with applicable laws, regulations, policies and procedures.
- Limited tests of internal controls and transactions.
- Follow-ups on prior audit observations.
- Other procedures considered necessary.

**CITY OF ST. LOUIS
SUPPLY DIVISION
PROCUREMENT PROCESS REVIEW
JANUARY 1, 2015 THROUGH DECEMBER 31, 2015**

SUMMARY

Status of Prior Observations

The Internal Audit Section (IAS) followed up on the observations included in the process review report issued January 8, 2013. The observations and status were as follows:

- Improve compliance of emergency purchases **(Repeated)**
- Ensure adequate tracking of filed requisitions **(Resolved)**
- Ensure all required documents are obtained and filed **(Repeated)**
- Maintain accurate logbooks **(Repeated)**

Conclusion

Several control strengths were noted within the procurement process. These included, but were not limited to the following:

- Requisitions were properly approved.
- The recording, processing, and reconciliation duties were adequately segregated.
- Required bid documents were properly prepared and signed by all bidders.
- Results of bids received were timely and properly routed to the departments for review.
- Bids quotes were signed by the vendors and approved by the Supply Division and the Comptroller's Office.
- Debarment reviews were performed for all vendors involving emergency, advertised, and unadvertised, and sole source procurements.
- Invoices associated with requisitions involving contracts and emergency purchases were reconciled to arrival logs and batch transmittal tickets.
- Vendor tax clearances were documented on all requisitions associated with contracts.

Internal Audit did identify the following opportunities for the Supply Division to improve internal controls:

1. Develop a written internal policies and procedures manual.
2. Improve compliance with procedures for emergency purchases **(Repeated)**.
3. Improve compliance with procedures for sole source purchases.
4. Ensure all required documents are maintained **(Repeated)**.
5. Improve controls for tracking requisitions **(Repeated)**.

These observations are discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

**CITY OF ST. LOUIS
SUPPLY DIVISION
PROCUREMENT PROCESS REVIEW
JANUARY 1, 2015 THROUGH DECEMBER 31, 2015**

SUMMARY

Exit Conference and Management's Responses

The Supply Commissioner did not feel that an exit conference was necessary. The Supply Commissioner provided written responses on September 26, 2016 which have been incorporated in this report.

**CITY OF ST. LOUIS
SUPPLY DIVISION
PROCUREMENT PROCESS REVIEW
JANUARY 1, 2015 THROUGH DECEMBER 31, 2015**

DETAILED OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT'S RESPONSES

1. Develop A Written Internal Policies and Procedures Manual

The Supply Division developed and distributed a policies and procedures manual for the benefit of user departments and vendors. However, it has not documented internal policies and procedures related to the procurement process for the Division's staff. This includes employees' responsibilities and related levels of authorization. In addition, the user manual did not adequately address internal control procedures used by the Division's staff for tracking and processing the following:

- Bids/Quotes and Reviews
- Requisitions and Invoices
- Purchase Orders
- Requisition Change Notices
- Vendor Verifications
- Posting to the Division's Website

According to the Government Finance Officers Association (GFOA), one method of communication that is particularly effective for controls over accounting and financial reporting is the formal documentation of policies and control procedures. GFOA notes that a well-designed and properly maintained system of documentation enhances accountability and consistency. The resulting documentation can also serve as a useful training tool for staff.

The lack of written policies and procedures increases the risk that necessary control procedures may not be effectively communicated and understood by staff or consistently performed.

Recommendation

Internal Audit recommends that the Supply Division develop a written internal policies and procedures manual that address all internal processes involved in the procurement of supplies and equipment, including levels of authorization, and employees' responsibilities. The manual should be reviewed annually and updated as necessary. In addition, we recommend that all employees receive training on policies and procedures when hired as well as periodic refresher training.

Management's Response

No management response was received.

**CITY OF ST. LOUIS
SUPPLY DIVISION
PROCUREMENT PROCESS REVIEW
JANUARY 1, 2015 THROUGH DECEMBER 31, 2015**

DETAILED OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT'S RESPONSES

2. Improve Compliance with Procedures for Emergency Purchases (Repeated)

According to Section G (Emergency Purchases and Waiver of Advertising) in the Supply Division's Policy and Procedures Manual, emergency purchases can be made only when a condition exists which might cause injury to a person, property damage or seriously impair public health or services.

Internal Audit reviewed twelve (12) emergency requisitions and found that emergency purchases were made that did not appear to meet the City's definition of an "emergency" or include adequate documentation to justify the emergency nature of the purchases. Specifically, we found:

- Four (4) purchases did not appear to meet the City's definition of an "emergency" and justification of the emergency nature was questionable. These included the following:
 - The Comptroller's Office purchased office furniture for \$3,004. The justification given was that the invoice needs to be paid for office furniture for the Administrative Assistant's office.
 - The Police Department purchased bag lunches and ice for \$2,320. The justification was to accommodate officers on a fixed post for the May Day Parade.
 - The Equipment Services Division purchased engine fuel injectors for \$930. The justification was that Forestry needs vehicles to maintain empty lots and other uses.
 - The Forestry Division purchased trash bags for \$727 to use while mowing lots, and picking up trash. The justification section stated that these bags must be heavy weight with drawstrings and are not on contract.
- Five (5) emergency requisitions related to invoices for purchases made prior to the date the emergency requisition was requested and six (6) included invoices for purchases made prior to the creation and approval of the emergency requisition form.
- Ten (10) of the emergency purchases had no documentation on file to indicate the purchases were made based on bids obtained and the lowest or best price was selected.

It appears that departments may be using the emergency process to circumvent the normal purchasing procedures. When Departments receive emergency approval for non-emergency purchases, they do not have to go through the regular channels of the purchasing process, which may result in less competitive pricing for purchases.

**CITY OF ST. LOUIS
SUPPLY DIVISION
PROCUREMENT PROCESS REVIEW
JANUARY 1, 2015 THROUGH DECEMBER 31, 2015**

DETAILED OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT'S RESPONSES

Recommendation

Internal Audit recommends that the Supply Division:

- Ensure only purchases that meet the definitions of an emergency are approved, and that adequate documentation is provided to justify the emergency.
- Work with City departments, through training if possible, to ensure that justifications for emergency purchases are adequately documented and processed.
- Send a letter to the authorizing department head, reminding them of the criteria for emergency purchases when a department submits an approved emergency requisition that does not fit the definition of an emergency purchase.
- Ensure all emergency purchases are approved by Comptroller's Office and the Supply Division prior to initiating the actual purchase or the reason for initiating the purchase prior to approval is adequately documented.
- Ensure two or three vendor letterhead price quotes are received for all emergency purchases, and the department's selection of the lowest or best available price is documented.
- For departments that continue to be noncompliant, work with the Comptroller's Office and Board of Aldermen to ensure City policies and procedures are followed.

Management's Response

It is agreed that the "Emergency" procedure is flawed. A meeting was held between the Comptroller's Office and the Supply Division to discuss but no procedures were formalized. Further discussion is needed.

**CITY OF ST. LOUIS
SUPPLY DIVISION
PROCUREMENT PROCESS REVIEW
JANUARY 1, 2015 THROUGH DECEMBER 31, 2015**

DETAILED OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT'S RESPONSES

3. Improve Compliance with Procedures for Sole Source Purchases

Section F of the Supply Division's Policies and Procedures manual on sole source purchases states that purchases may be exempt from competitive bidding if there is only one known capable supplier of a product or service. The department must submit "sole source justification" to the Board of Standardization for approval of all sole source purchases. Specifically, the department must:

- Submit a letter on the department's letterhead to the Board of Standardization requesting the sole source purchase for all amounts over \$500.
- Request a "Waiver of Advertising" in the same letter for purchases over \$5,000.
- Submit documentation from the manufacturer indicating they are the sole source for the required service.

Internal Audit reviewed nine (9) sole source/ advertised-waived requisitions and found that one (1) did not appear to be processed and approved in accordance with the Supply Division's procedures. Specifically, Animal Regulation submitted a March 19, 2015 requisition to pay the cost of \$21,240 for a van conversion. Comments noted on the requisition specified one vendor as the sole source, based on an expired September 20, 2014 sales proposal and the prior sole bidder's purchase price of \$26,828 for the transport van. The prior requisition was dated October 17, 2014 for the total price of \$45,000, which included the cost of the van and conversion. We reviewed the requisition file and found no letter requesting the sole source purchase, "waiver of advertising" or other documentation supporting the sole source.

It appears this purchase circumvented the procedures and the department was able to avoid advertisement and competitive bidding.

Recommendation

Internal Audit recommends that the Supply Division re-communicate to all departments the importance of following the procedures addressed in department's copy of the manual. In addition, Internal Audit recommends that the Supply Division meet with the Comptroller's Office to determine the best way to handle purchase requests which are not processed in accordance to standard procedures.

Management's Response

A new checklist documentation of requisitions is improving this procedure.

**CITY OF ST. LOUIS
SUPPLY DIVISION
PROCUREMENT PROCESS REVIEW
JANUARY 1, 2015 THROUGH DECEMBER 31, 2015**

DETAILED OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT'S RESPONSES

4. Ensure All Required Documents Are Maintained (Repeated)

We reviewed forty-five (45) requisition packages consisting of ten (10) contracts, twelve (12) emergency, eight-teen (18) advertised/ unadvertised, and five (5) advertised-waived packages for proper documentation of vendor verification. It was observed that some required documents were not on file as follows:

- We found no documented reviews of the General Services Administration's System for Award Management (SAM) for ineligible or excluded bidders and vendors for the ten (10) contracts and two (2) of the five (5) advertised-waived purchases. When SAM printouts are not included with the requisition package, it cannot be verified whether a suspension and debarment review was performed. If a suspension and debarment review is not performed, the risk of conducting business with a defunct or fraudulent vendor increases.
- Documentation of vendor/ bidder written tax clearances was not on file for thirty (30) of the files reviewed. St. Louis City Ordinance 63454 and Section 8.02.010 of the City Code requires businesses to have written statement of clearance from the Collector of Revenue and the License Collector certifying that no current or past taxes are due. It was also noted that the bid packages require bidders/businesses operating within the City to comply with the tax and license requirements.

Recommendation

Internal Audit recommends that the Supply Division improve controls to ensure that vendor verifications are properly documented in accordance with policies and procedures and applicable laws and regulations. Internal Audit recommends that a checklist be developed, completed by employees, reviewed and signed-off by management and maintained in the requisition file.

Management's Response

The ordinance 63453 section 8.02.010 does not mention the Finance Department or the Supply Division specifically. The normal procedure is to perform a tax clearance for all contracts but not for each individual bid.

**CITY OF ST. LOUIS
SUPPLY DIVISION
PROCUREMENT PROCESS REVIEW
JANUARY 1, 2015 THROUGH DECEMBER 31, 2015**

DETAILED OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT'S RESPONSES

5. Improve Controls for Tracking Requisitions (Repeated)

The Supply Division's Policies and Procedures require the recording of all incoming requisitions in manual logbooks. The requisitions are date-stamped upon receipt, recorded in the fiscal year logbook by department and receipt date, and classified/labeled according to the type of requisition. After completion of bidding, payment of purchases and entry in the City's mainframe, the requisitions are manually stamped "Closed and Ready To File".

Our review of the logbooks and requisitions revealed that:

- Six (6) of the forty-five (45) requisitions reviewed appeared to be misclassified and/or mislabeled in the logbooks. These included the following:
 - Three (3) requisitions were logged as "advertised bids" (#17015R0002; #71415R0066; and #22015R0139). Based on the comments and specifications noted on the actual requisitions, two (2) were changed to sole source and one (1) was changed to a cooperative agreement; however, the logbook entry was not changed to reflect this.
 - Two (2) requisitions were logged as "unadvertised" (#12316R0009 and #41515R1139); however, they subsequently were changed to contracts. An attempt to select another "unadvertised" requisition (#41515R1138) from the logbook revealed that it was also "advertised". The logbook was not corrected for the changes.
 - One (1) requisition (#41516R1087) logged as "advertised-waived" was changed to advertised/price guaranteed. The logbook was not corrected to reflect the change.
- Ten (10) of the requisitions reviewed were not stamped "Closed and Ready To File" as described by the procedures, although the purchases were paid.

Recommendation

To improve upon the system of tracking types of requisitions processed and reporting on the status of open and closed requisitions processed, Internal Audit recommends the following:

- Ensure that all logbook entries are accurately recorded and reflect required changes, if any.
- The current procedures of stamping requisitions periodically are monitored for consistency.
- Consider computerizing its system of tracking and reporting requisitions processed.

**CITY OF ST. LOUIS
SUPPLY DIVISION
PROCUREMENT PROCESS REVIEW
JANUARY 1, 2015 THROUGH DECEMBER 31, 2015**

DETAILED OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT'S RESPONSES

Management's Response:

This issue has not been addressed due to the ongoing implementation of new software. The software would have the necessary controls to help track requisitions. If the software is no longer to be purchased, the tracking procedures will be reviewed and updated.